

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

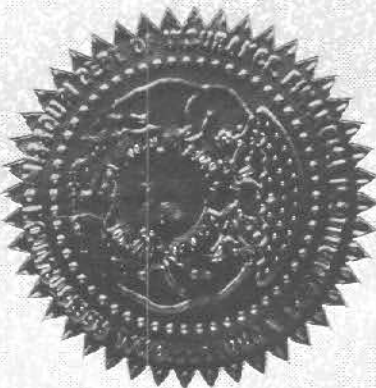
RE: Examination Report of Shelter Reinsurance Company as of December 31, 2007

ORDER

After full consideration and review of the report of the financial examination of Shelter Reinsurance Company for the period ended December 31, 2007, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Shelter Reinsurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this May 7, 2009.



John M. Huff, Director
Department of Insurance Financial Institutions
and Professional Registration

REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
SHELTER REINSURANCE COMPANY

AS OF
DECEMBER 31, 2007

FILED
MAY 17 2009
DIRECTOR OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	2
PERIOD COVERED	2
PROCEDURES	2
COMMENTS - PREVIOUS EXAMINATION	2
HISTORY	3
GENERAL	3
CAPITAL STOCK	3
DIVIDENDS	3
MANAGEMENT	3
COMMITTEES	4
OFFICERS	5
CONFLICT OF INTEREST	5
CORPORATE RECORDS	6
ACQUISITIONS, MERGERS AND MAJOR CORPORATE EVENTS	6
SURPLUS DEBENTURES	6
AFFILIATED COMPANIES	7
HOLDING COMPANY, SUBSIDIARIES AND AFFILIATES	7
ORGANIZATIONAL CHART	8
INTERCOMPANY TRANSACTIONS	8
FIDELITY BOND AND OTHER INSURANCE	10
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS.....	11
STATUTORY DEPOSITS.....	11
DEPOSITS WITH THE STATE OF MISSOURI	11
DEPOSITS WITH OTHER STATES	11
INSURANCE PRODUCTS AND RELATED PRACTICES	12

TERRITORY AND PLAN OF OPERATION.....	12
POLICY FORMS & UNDERWRITING.....	12
ADVERTISING & SALES MATERIALS	12
TREATMENT OF POLICYHOLDERS	12
REINSURANCE.....	13
GENERAL	13
ASSUMED.....	13
CEDED	13
ACCOUNTS AND RECORDS.....	14
INDEPENDENT AUDITOR	14
APPOINTED ACTUARY	14
FINANCIAL STATEMENTS.....	14
ASSETS	15
LIABILITIES, SURPLUS AND OTHER FUNDS	16
SUMMARY OF OPERATIONS.....	17
CAPITAL AND SURPLUS ACCOUNT	18
NOTES TO THE FINANCIAL STATEMENTS	18
EXAMINATION CHANGES.....	18
GENERAL COMMENTS AND/OR RECOMMENDATIONS	18
ACKNOWLEDGMENT	19
VERIFICATION	19
SUPERVISION	20

Columbia, Missouri
April 10, 2009

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman of Financial Condition (EX4) Subcommittee

Honorable Merle D. Scheiber, Commissioner
South Dakota Division of Insurance
Midwestern Zone Secretary

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Shelter Reinsurance Company

hereinafter referred to as such, as Shelter Re, or as the Company. Its administrative office is located at 1817 West Broadway, Columbia, Missouri 65218, telephone number (573) 445-8441. This examination began on August 18, 2008, fieldwork was completed on March 5, 2009 and the examination report was concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Shelter Reinsurance Company was made as of December 31, 2004, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covered the period from January 1, 2005, through December 31, 2007, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination was performed concurrently with the examinations of the Company's parent, Shelter Mutual Insurance Company (Shelter Mutual) and two affiliates, Shelter General Insurance Company (Shelter General) and Shelter Life Insurance Company (Shelter Life).

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, Ernst & Young, LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2007, through December 31, 2007. Information relied upon included paid losses and schedule P analysis and reconciliation, attorney letters, review and documentation of review of fraud, tests of controls and system walk-throughs, narrative descriptions of processes and controls, etc.

Comments - Previous Examination

Listed below are comments, recommendations and notes of the previous examination report dated as of December 31, 2004, and the subsequent response or action taken by the Corporation.

Foreign Exchange Adjustment

Comment: It was noted that the Company did not follow the requirements of Statements of Statutory Accounting Principles (SSAP) #23 (Foreign Currency Transactions and Translations) which requires that changes in foreign currency rates should be reflected in each individual Annual Statement line. The Company had improperly netted the changes and reported it under

the Net Adjustments line. It was recommended the Company follow the guidance provided by SSAP #23 in reporting changes in foreign currency rates.

Company's Response: The Company disagreed with the DIFP's interpretation of SSAP #23 as it pertains to the Company. The Company referenced a sub-paragraph of SSAP # 23 to restate the accuracy of its reporting of the effect of changes in foreign currency in the Net Adjustment line.

Current Findings: The Company began using new reinsurance system software in 2008. This new system allows for the reporting of foreign currency adjustments in the appropriate asset/liability lines of the Annual Statement. The Company properly reported foreign currency adjustments in the individual asset/liability line items in the 2008 Third Quarterly statement.

HISTORY

General

Shelter Reinsurance Company was incorporated on October 6, 1986. It was issued a Certificate of Authority and commenced business on November 24, 1986. The Company operates as a stock property and casualty reinsurer under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life).

Capital Stock

Shelter Re is owned 100% by Shelter Mutual. The Company is authorized to issue 15,000,000 shares of common stock with a par value of \$1 per share. As of December 31, 2007, all 15,000,000 shares were issued and outstanding for a total capital stock balance of \$15,000,000.

Dividends

No cash dividend was declared or paid during the years under examination.

Management

The management of the Company is vested in a Board of Directors that are appointed by the sole shareholder, Shelter Mutual. The Company's Articles of Incorporation and Bylaws specify that the number of directors shall be nine. The Board of Directors appointed and serving, as of December 31, 2007, were as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
John D. Duello Rocheport, MO	Chairman of the Board and Retired Executive Shelter Insurance Companies
John D. Moore Columbia, MO	President and CEO Shelter Insurance Companies
Raymond E. Jones Columbia, MO	Retired Executive Shelter Insurance Companies
Gerald T. Brouder Columbia, MO	President Columbia College
Ann K. Covington Columbia, MO	Vice Chairman Shelter Insurance Companies Attorney / Partner Bryan Cave, LLP
Andres Jimenez* Madrid, Spain	Vice President and Chief Executive Officer Mapfre Re Compania de Reaseguros, S.A.
Don A. McCubbin Sturgeon, MO	Executive Vice President Shelter Insurance Companies
Barry L. McKuin Morrilton, AR	Retired President Morrilton Area Chamber of Commerce
Phillip K. Marblestone University Park, FL	Retired Partner PriceWaterhouseCoopers LLP

* Effective August 1, 2008, Mr. Jimenez retired and was replaced as a Board member by Randall C. Ferguson, Jr.

Committees

The Bylaws require an Executive and Compensation Committee, Audit Committee, and an Investment Committee of the Board of Directors. The Bylaws also allow for other committees to be appointed by the Board of Directors as needed. As of December 31, 2007, the members of each committee were as follows:

Executive and Compensation Committee

Ann K. Covington, Chairman
John D. Duello
Barry L. McKuin
John D. Moore
Gerald T. Brouder

Investment Committee

John D. Duello, Chairman
Raymond E. Jones
Thomas N. Fischer#
Ann K. Covington
John D. Moore
Don A. McCubbin
Gerald T. Brouder

Audit Committee

Barry L. McKuin, Chairman

Ann K. Covington

Phillip K. Marblestone

Resigned effective March 1, 2008, and was replaced by Jerry L. French.

Officers

The officers of the Company shall be a Chairman of the Board, Vice Chairman of the Board, a President and Chief Executive Officer, an Executive Vice President, Vice Presidents, Secretary and a Treasurer, all of whom shall be elected by the Board of Directors. The officers elected by the Board of Directors and serving as of December 31, 2007, were as follows:

John. D. Duello	Chairman
Ann K. Covington	Vice Chairman
John D. Moore	President and Chief Executive Officer
Randa Rawlins	Secretary and General Counsel
Don A. McCubbin	Executive Vice President
Gary D. Myers	Executive Vice President
Ricky L. Means	Executive Vice President
Jerry L. French	Executive Vice President, Treasurer, and Assistant Secretary
William C. Keithley*	Vice President
James J. Folger	Vice President and Managing Director
Gary L. Ford	Vice President – Planning and Research
Thomas N. Fischer#	Vice President – Investments
L. Gerald Brooks@	Assistant Treasurer

Thomas N. Fischer resigned as Vice President of Investments effective March 31, 2008. Investment duties will be performed by Jerry L. French, Executive Vice President, Treasurer, and Assistant Secretary.

* William C. Keithley was appointed Executive Vice President as of January 1, 2008.

@ L. Gerald Brooks retired on November 21, 2008 and was replaced by Christina M. Workman as Assistant Treasurer. Ms. Workman was also appointed Vice President of Accounting as of January 1, 2008.

Conflict of Interest

The Company has a policy that requires all officers, directors, and key employees to complete a conflict of interest statement each year. Signed statements of officers and directors were reviewed for the examination period. No significant exceptions were noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. There were no amendments or changes to the Articles of Incorporation during the period under examination.

The Bylaws were amended and restated effective February 24, 2005, to specify the indemnification guidelines for employees, officers, and directors that are subject to litigation proceedings. The Bylaws were further amended effective October 10, 2005, to add the Investment Committee as a required committee of the Board of Directors, revise the duties and requirements of elected officers, and other minor changes. The Bylaws were also amended effective December 18, 2006, to change the title of Chairman of the Board and CEO to simply Chairman of the Board, and to change the title of President and Chief Operating Officer to President and Chief Executive Officer.

The minutes of the Board of Directors' meetings, committee meetings, and policyholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

There were no acquisitions, mergers or major corporate events during the examination period.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by its parent, Shelter Mutual, on behalf of itself, and its insurance subsidiaries, including Shelter Re for each year of the examination period.

Shelter Re is ultimately owned by the policyholders of Shelter Mutual. Shelter Mutual, a property and casualty mutual insurer, does not have any stockholders or controlling entity due to its formation and organization as a mutual entity.

As of December 31, 2007, Shelter Mutual, in addition to the ownership of Shelter Re, wholly or partially owned the following entities:

- Shelter General Insurance Company (Shelter General), a State of Missouri property and casualty insurer specializing in automobile insurance coverage.
- Shelter Life Insurance Company (Shelter Life), a State of Missouri life insurer that specializes in providing ordinary life insurance, annuities and accident and health insurance.
- Shelter Financial Corporation (SFC), a holding company for Shelter Financial Bank.
- Shelter Financial Bank (SFB), a savings and loan company that sells certificates of deposits and provides auto loans and mortgage loans. It does not have any demand accounts (checking or savings). Its customers are mainly policyholders of Shelter Mutual and Shelter General, but customers may also come from the general public.
- Shelter Financial Services, Inc. (SFS), a holding company for Shelter Benefits Management, Inc.
- Shelter Benefits Management, Inc. (Shelter Benefits), a benefit management company that manages various agent and employee services for Shelter Mutual employees. Services provided include human resource functions, payroll services, and benefits administration for the employees, agents, and retirees of Shelter Mutual.
- Shelter Enterprises, LLC (Shelter Enterprises) – Leases property and equipment to affiliates, including Shelter Mutual, and other non-affiliated entities.
- Daniel Boone Agency, LLC (DBA, LLC). – An insurance broker that places risks from leads generated by agents of Shelter Mutual and its insurance subsidiaries.

Organizational Chart

The following table depicts the holding company system of Shelter Re and its parent and affiliates as of December 31, 2007:

<u>Company</u>	<u>Parent or Controlling Entity</u>	<u>Ownership</u>
Shelter Mutual Insurance Company	Policyholders	100%
Shelter General Insurance Company	Shelter Mutual Insurance Company	100%
Shelter Enterprises, LLC	Shelter Mutual Insurance Company	13%
	Shelter General Insurance Company	39%
	Shelter Life Company	39%
	Shelter Reinsurance Company	9%
Shelter Life Insurance Company	Shelter Mutual Insurance Company	100%
Shelter Reinsurance Company	Shelter Mutual Insurance Company	100%
Shelter Financial Corporation	Shelter Mutual Insurance Company	100%
Shelter Financial Bank	Shelter Financial Corporation	100%
Shelter Financial Services, Inc.	Shelter Mutual Insurance Company	79%
	Shelter General Insurance Company	11%
	Shelter Life Insurance Company	10%
Shelter Benefits Management, Inc.	Shelter Financial Services, Inc.	100%
Daniel Boone Agency, L.L.C.	Shelter Mutual	40%
	Shelter General	40%
	Shelter Life	20%
Haulers Insurance Company*	Shelter Mutual	100%

*Haulers Insurance Company (Haulers Insurance) was acquired on June 30, 2008, subsequent to the examination date.

Intercompany Transactions

The Company is a party to the intercompany agreements outlined below.

- 1. Type:** Agreement for Management Services and Facilities (9 separate agreements)
- Parties:** Shelter General, Shelter Life, SFC, SFS, Daniel Boone Agency, LLC, Daniel Boone Agency, Inc. Daniel Boone Underwriters, Inc., Shelter Enterprises, LLC, (collectively referred to as the "Subsidiaries").
- Effective:** January 1, 1997 for Daniel Boone Agency, LLC
January 1, 1997 for Shelter Life, Shelter Re, and SFS
April 10, 1998 for SFC
October 1, 2003 for DBA, Inc., DBU, Inc., and Shelter Enterprises and December 5, 2005, for Shelter General

Terms: All 9 agreements contain the following nearly identical terms. Shelter Mutual agrees to provide the employees to operate all aspects of the Subsidiaries. Services to be provided include recordkeeping, processing, planning, budgeting, receipt and disbursement activities, and all work incidental to the operation of the Subsidiaries' business. Shelter Mutual agrees to provide office space, utilities, computer systems, office equipment, and supplies. In exchange for the services and facilities provided by Shelter Mutual, the Subsidiaries will make monthly payments to Shelter Mutual. Payments will be calculated in accordance with the Joint Expense Allocation Agreement between Shelter Mutual and the Subsidiaries. These agreements were amended effective September 22, 2006, to prohibit payments no later than 89 days after the billing date.

The agreement with Shelter General also contains a processing clause wherein Shelter Mutual agrees to process and service outstanding claims drafts of Shelter General.

2. Type: Joint Expense Allocation Agreement

Parties: Shelter Mutual, Shelter General, Shelter Life, SFS, Daniel Boone Agency, LLC, Shelter Enterprises, LLC, Shelter Benefits

Effective: May 19, 1999 (original Agreement)
December 1, 2004 (amended and restated)
September 22, 2006 Amended

Terms: Each party agrees to pay its direct expenses in instances when each entity's actual usage can be determined. The parties agree to allocate any joint expenses for instances in which the identification and segregation of each entity's actual share is not practically feasible. The allocation methodologies for each category of joint expenses are as follows:

- (1) Personnel – estimated or actual time
- (2) Real Estate – square footage and employee count
- (3) Investment – portfolio value
- (4) Claims Adjustment (applicable to Shelter Mutual and Shelter General only) – incurred losses
- (5) Reinsurance (applicable to Shelter Mutual and Shelter General only) – actual premiums and claims of each entity
- (6) Other Expenses – assets, employee count, or written premium.

This agreement was amended effective September 22, 2006, to strengthen the original settlement period of 30 days by prohibiting payment of later than 89 days after billing date.

3. Type: Tax Allocation Agreement

Parties: Shelter Mutual, Shelter General, Shelter Life, SFS, SFC, Shelter Benefits, SFB and Haulers Insurance

Effective: Effective May 19, 1999; amended September 23, 2008, to include Haulers Insurance Company. Agreement is applicable to 1999 and subsequent tax years.

Terms: Shelter Mutual will file a consolidated federal income tax return on behalf of itself and its subsidiaries. The tax liability for each company will be the amount that would have been determined on a separate filing basis. The subsidiaries will pay their share of tax payments to Shelter Mutual within 10 days following any tax payments made by Shelter Mutual. Shelter Mutual will refund any amount due to the subsidiaries within 10 days after filing the consolidated return.

In addition to the above agreements, Shelter Re provides an excess of loss reinsurance contract for Shelter Mutual, its parent, which provides excess of loss reinsurance coverage. See further details in the Reinsurance section of this report.

The following table summarizes the payments and receipts that occurred during the exam period, between Shelter Re and its affiliates:

Affiliate	Agreement	Net Paid / (Received)		
		2007	2006	2005
Shelter Mutual	Management Services	25,519	19,766	17,671
Shelter Mutual	Joint Expense Allocation	1,357,219	1,077,569	953,629
Shelter Benefits	Transfer and Assumption	31,850	22,226	35,258
Shelter Mutual	Tax Allocation	9,512,563	8,269,865	(1,296,403)
TOTALS		<u>\$10,927,151</u>	<u>\$9,389,426</u>	<u>(\$289,845)</u>

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2007, Shelter Re is a named-insured on a standard financial institution bond providing fidelity coverage, purchased through its parent, Shelter Mutual. The financial institution bond has a liability limit of \$2,500,000 and a deductible of \$100,000. This level of coverage meets the suggested minimum amount of fidelity insurance coverage as determined in accordance with NAIC guidelines.

Shelter Re is also a named-insured on the following insurance policies: General Liability, Excess Umbrella, Automobile, Property and Equipment (including Boiler and Machinery coverage), Fiduciary and Excess Fiduciary, Workers Compensation and Earth Movement Policy coverages.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Shelter Re does not have any direct employees or agents. Employees and agents of the parent, Shelter Mutual, perform all functions necessary for the operation of Shelter Re, pursuant to the Agreement for Management Services and Facilities. Shelter Re reimburses Shelter Mutual for an allocated share of the payroll and benefits costs of the employees that provide services, pursuant to the Joint Expense Allocation Agreement. Both agreements are described further in the Intercompany Transactions section of this report. As of December 31, 2007, there were ten Shelter Mutual employees that work solely on the business operations of Shelter Reinsurance.

A variety of standard benefits are provided to the Shelter Mutual employees and agents. These benefits include, but are not limited to, the following: medical insurance, dental insurance, life insurance, personal accident insurance, disability insurance, sick leave, and tuition reimbursement. Employees are also provided with a defined benefit pension plan and a 401(k) savings and profit sharing plan. Certain highly compensated employees are provided with a Supplemental Employee Retirement Plan.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2007, as reflected below, were sufficient to meet the capital deposit requirement for the State of Missouri in accordance with Section 379.098 RSMo (Securities Deposit). The funds on deposit as of December 31, 2007, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Bonds	\$1,260,000	\$1,369,507	\$1,362,065

Deposits with Other States

The Company did not have any funds on deposit with other states, as of December 31, 2007.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Shelter Reinsurance Company (Shelter Re) is licensed as a property and casualty insurer by the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) under Chapter 379 RSMo (Insurance Other than Life). The Company is also licensed *only* as a reinsurer in the following states: Iowa, Kansas, Maryland, Michigan, Pennsylvania, and North Dakota. In addition, the Company is authorized as a reinsurer in Mexico, Paraguay, and Puerto Rico. During the examination period, the Company did not renew authorizations to act as a reinsurer in Argentina and Columbia. The Company pursued and obtained approval from the California Department of Insurance to directly write earthquake coverage on an excess and surplus basis in the state on October 18, 2007. The business is brokered through North Shore Management Associates, Inc.

The Company is primarily a reinsurer, generating over 98% of its premiums from assumed reinsurance. Shelter Re's business consists of property reinsurance risks written through both direct placement and reinsurance brokers. The Company's book of business consists mainly of property catastrophe and property proportional treaties.

Over half of the assumed premiums as of the examination date were placed by the Company's parent, Shelter Mutual, which retrocedes all of its assumed reinsurance (excluding involuntary pools and associations) to Shelter Reinsurance.

The Company's business outside of the United States accounts for 39% of its total property aggregate reinsurance coverage as of the examination date. The primary international markets are Japan, Europe, and the Caribbean.

Policy Forms & Underwriting

Advertising & Sales Materials

Treatment of Policyholders

The DIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. There was no market conduct examination of the Company during the period under examination.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Direct Business	\$2,100,709	\$5,000	\$5,000
Reinsurance Assumed:			
Affiliates	35,054,043	26,382,719	15,186,322
Non-affiliates	29,975,602	29,167,157	30,097,189
Reinsurance Ceded:			
Affiliates	(719,052)	(789,277)	(0)
Non-affiliates	(0)	(497,123)	(249,427)
Net Written Premiums	<u>\$66,411,302</u>	<u>\$54,268,476</u>	<u>\$45,039,084</u>

Assumed

Shelter Re is a professional reinsurer specializing in property business operating on a global basis. The Company writes one small direct policy, which is issued to its parent, Shelter Mutual. The Company has an intercompany retrocession agreement with its parent, Shelter Mutual, for Shelter Mutual's entire book of assumed business, except for business from involuntary pools and associations.

Non-affiliated business is obtained directly and through the use of brokers including programs for property, catastrophe and marine risks for a geographically diverse group of clients. The only material, non-affiliated assumed reinsurance as of the examination date consisted of several property quota-share agreements with Mapfre Re Compania De Reaseguros, S.A. The agreements cover various property risks located in Europe including fire, marine, engineering, and electronic equipment.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

Shelter Re currently cedes business under a parental retrocessional property catastrophe excess of loss agreement set for \$36 million excess of \$25 million.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements were audited by the CPA firm, Ernst & Young, LLP, of Kansas City, Missouri, for all the years under examination.

Appointed Actuary

Loss and Loss Adjustment Expense reserves were reviewed and certified by Robert H. Wainscott, FCAS, MAAA, who is employed by Ernst & Young, LLP, of Chicago, Illinois for each of the years under examination.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Shelter Re for the period ending December 31, 2007. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Corporation and noted in the workpapers for each individual Annual Statement item.

Assets

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$186,710,189	\$0	\$186,710,189
Cash and Short-Term Investments	16,971,095		16,971,095
Other Invested Assets	319,970		319,970
Investment Income Due and Accrued	2,626,425		2,626,425
Uncollected Premiums and Agents' Balances in the Course of Collection	1,439,656	1,181	1,438,475
Deferred Premiums, Agents' Balances Booked But Deferred and Not Yet Due	536,755		536,755
Amounts Recoverable from Reinsurers	15,617		15,617
Funds Held by or Deposited with Reinsured Companies	4,644,714		4,644,714
Other Amounts Receivable Under Reinsurance	943,833		943,833
Net Deferred Tax Asset	2,735,924	981,357	1,754,567
Aggregate Write-ins for Assets:			
Miscellaneous Receivable	<u>41</u>	<u>0</u>	<u>41</u>
TOTAL ASSETS	<u>\$216,944,219</u>	<u>\$982,538</u>	<u>\$215,961,681</u>

Liabilities, Surplus and Other Funds

Losses	\$ 63,845,185
Reinsurance Payable on Paid Loss and LAE	2,197,627
Loss Adjustment Expenses	229,276
Commissions Payable	2,337
Taxes, Licenses and Fees	6
Current Federal Income Taxes	86,760
Unearned Premiums	12,617,900
Ceded Reinsurance Premiums Payable	118,541
Remittances and Items Not Allocated	79
Provision for Reinsurance	13,254
Net Adjustment Due to Foreign Exchange Rates	1,625,462
Payable to Parent, Subsidiaries and Affiliates	9,666,449
Aggregate Write-In Liabilities:	
Miscellaneous Accounts Payable	<u>72,408</u>
TOTAL LIABILITIES	\$90,475,284
Common Capital Stock	15,000,000
Gross Paid In and Contributed Surplus	20,000,000
Unassigned Funds (Surplus)	<u>90,486,396</u>
Capital and Surplus	<u>\$125,486,396</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$215,961,680</u>

Summary of Operations

Underwriting Income

Premiums Earned	\$65,134,116
Losses Incurred	33,668,143
Loss Expenses Incurred	469,685
Other Underwriting Expenses Incurred	<u>17,537,527</u>
Total Underwriting Deductions	<u>\$51,675,355</u>
Net Underwriting Gain/(Loss)	\$13,458,761

Investment Income

Net Investment Income Earned	9,488,415
Net Realized Capital Gains or (Losses)	<u>85,026</u>
Net Investment Gain or (Loss)	\$9,573,441

Other Income

Miscellaneous Other Income	<u>494,999</u>
Total Other Income	<u>\$494,999</u>
Net Income Before Dividends to Policyholders and Federal Income Taxes	\$23,527,201
Federal and Foreign Income Taxes Incurred	<u>(7,284,223)</u>
Net Income or (Loss)	<u>\$16,242,978</u>

Capital and Surplus Account

Capital and Surplus, December 31, 2006	\$109,732,043
Net Income or (Loss)	16,242,978
Change in Net Unrealized Capital Gains or (Losses)	11,573
Change in Net Unrealized Foreign Exchange Capital Gain (Loss)	(182,873)
Change in Net Deferred Income Tax	(248,846)
Change in Non-admitted Assets	<u>(68,478)</u>
Net Change in Capital and Surplus	<u>\$15,754,354</u>
 CAPITAL AND SURPLUS, DECEMBER 31, 2007	 <u>\$125,486,397</u>

NOTES TO THE FINANCIAL STATEMENTS

None

EXAMINATION CHANGES

None

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None

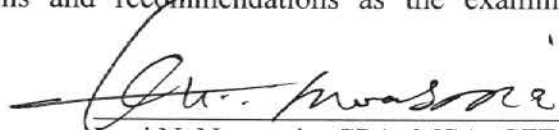
ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Shelter Reinsurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Larry Kleffner, CFE, Shawn Hernandez, CFE, Karen Baldree, CPA, CFE, Steven Koonse, CFE and Valerie Hastings, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration also participated in this examination. Angela Campbell CFE, Computer Audit Specialist for the Missouri Department of Insurance, Financial Institutions and Professional Registration performed a review of the information system environment.

VERIFICATION

State of Missouri)
)
 County of)

I, Levi N. Nwasoria, CPA, MSA, CFE on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.




Levi N. Nwasoria, CPA, MSA, CFE
 Examiner-In-Charge
 Missouri Department of Insurance, Financial
 Institutions and Professional Registration

Sworn to and subscribed before me this 7th day of April, 2009

My commission expires:

06/26/10


 Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in cursive script, reading "Vicki L. Denton", written over a horizontal line.

Vicki L. Denton, CFE

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration